
**NATIVE
ARTS &
CULTURES**
FOUNDATION

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

and

Supplementary Financial Information

with

Independent Auditors' Reports

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplementary Financial Information	
Independent Auditors' Report on Supplementary Financial Information	14
Schedules of Expenses	15

Independent Auditors' Report

The Board of Directors
Native Arts and Cultures Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Native Arts and Cultures Foundation, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Native Arts and Cultures Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
March 31, 2017

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Statements of Financial Position

December 31,	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 254,851	\$ 411,519
Grants receivable (Note 3)	328,000	70,000
Prepaid expenses and deposits	29,517	28,291
Investments (Note 5)	<u>6,174,583</u>	<u>6,306,122</u>
Total current assets	6,786,951	6,815,932
Furniture and equipment	-	73,307
Less accumulated depreciation	<u>-</u>	<u>(73,307)</u>
Net furniture and equipment	-	-
Grants receivable (Note 3)	52,000	-
Investments (Notes 5 and 9)	<u>5,475,304</u>	<u>5,201,183</u>
Total assets	<u>\$ 12,314,255</u>	<u>\$ 12,017,115</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 36,760	\$ 26,155
Grants payable	48,525	40,500
Accrued payroll liabilities	<u>22,187</u>	<u>29,546</u>
Total liabilities (all current)	107,472	96,201
Commitments (Notes 6 and 7)		
Net assets:		
Unrestricted:		
Available for operations	9,809	3,655
Board designated for operating reserve	679,750	1,000,000
Board designated for financial reserve	<u>5,132,760</u>	<u>5,311,430</u>
Total unrestricted	5,822,319	6,315,085
Temporarily restricted (Note 8)	2,384,464	1,605,829
Permanently restricted (Note 9)	<u>4,000,000</u>	<u>4,000,000</u>
Total net assets	<u>12,206,783</u>	<u>11,920,914</u>
Total liabilities and net assets	<u>\$ 12,314,255</u>	<u>\$ 12,017,115</u>

The accompanying notes are an integral part of the financial statements.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Statements of Activities and Changes in Net Assets

Years Ended December 31,

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:								
Grants	\$ 71,038	\$ 934,000	\$ -	\$ 1,005,038	\$ 3,035,000	\$ 144,500	\$ -	\$ 3,179,500
Contributions	22,239	10,075	-	32,314	39,066	-	-	39,066
Investment return <i>(Note 4)</i>	418,098	274,121	-	692,219	(78,702)	(17,269)	-	(95,971)
Miscellaneous income	26	-	-	26	2,868	-	-	2,868
Net assets released from restrictions <i>(Note 8)</i>	439,561	(439,561)	-	-	926,521	(926,521)	-	-
Total revenues, gains, and other support	950,962	778,635	-	1,729,597	3,924,753	(799,290)	-	3,125,463
Functional expenses:								
Program services	1,044,467	-	-	1,044,467	1,479,182	-	-	1,479,182
Management and general	260,904	-	-	260,904	281,896	-	-	281,896
Fundraising	138,357	-	-	138,357	281,537	-	-	281,537
Total expenses	1,443,728	-	-	1,443,728	2,042,615	-	-	2,042,615
Increase (decrease) in net assets	(492,766)	778,635	-	285,869	1,882,138	(799,290)	-	1,082,848
Net assets, beginning of year	6,315,085	1,605,829	4,000,000	11,920,914	4,432,947	2,405,119	4,000,000	10,838,066
Net assets, end of year	\$ 5,822,319	\$ 2,384,464	\$ 4,000,000	\$ 12,206,783	\$ 6,315,085	\$ 1,605,829	\$ 4,000,000	\$ 11,920,914

The accompanying notes are an integral part of the financial statements.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Statements of Cash Flows

Years Ended December 31,	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 285,869	\$ 1,082,848
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	-	35,396
Realized and unrealized loss (gain) on investments	(533,954)	266,861
(Increase) decrease in assets:		
Grants receivable	(310,000)	440,000
Prepaid expenses and deposits	(1,226)	5,646
Increase (decrease) in liabilities:		
Accounts payable	10,605	18,076
Grants payable	8,025	30,000
Accrued payroll liabilities	(7,359)	8,006
Deferred rent	-	(7,328)
Net cash provided (used) by operating activities	(548,040)	1,879,505
Cash flows from investing activities:		
Proceeds from sale of investments	3,649,822	1,150,133
Purchases of investments	(3,258,450)	(3,462,811)
Proceeds from sale of certificates of deposit	-	400,000
Purchases of furniture and equipment	-	(1,994)
Net cash provided (used) by investing activities	391,372	(1,914,672)
Net decrease in cash and cash equivalents	(156,668)	(35,167)
Cash and cash equivalents, beginning of year	411,519	446,686
Cash and cash equivalents, end of year	\$ 254,851	\$ 411,519

The accompanying notes are an integral part of the financial statements.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization - The Native Arts and Cultures Foundation, Inc. (the Foundation) was established to promote the revitalization, appreciation, and perpetuation of Native arts and cultures in all sectors of society through philanthropy and partnership, ensuring a path that benefits present and future generations of indigenous peoples in America. The Foundation is a unique national philanthropic foundation dedicated exclusively to Native arts and cultures. Through grant making, partnerships, and convening, the Foundation will focus on strengthening the Native arts and cultures field, indigenous artists, and communities.

Summary of Significant Accounting Policies

Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - Resources over which the Board of Directors has discretionary control and are not subject to donor imposed restrictions. Designated amounts represent those revenues the Board has set aside for a particular purpose.

Temporarily restricted - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Foundation or passage of time.

Permanently restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The donors of these resources permitted the Foundation to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates are used in the financial statements for, among other things, the determination of any allowance for uncollectible receivables, the useful lives of furniture and equipment for calculating depreciation expense, and the valuation of investments classified as Level 3.

Cash and Cash Equivalents - The Foundation considers money market funds, financial instruments, and certificates of deposit with an original maturity date of 90 days or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts, which at times may exceed Federally insured limits.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

1. Nature of Organization and Summary of Significant Accounting Policies - Continued
Summary of Significant Accounting Policies - Continued

Furniture and Equipment - Acquisitions of furniture and equipment in excess of \$2,500 are capitalized. Furniture and equipment are recorded at cost, if purchased, and at fair value, if donated. The Foundation depreciates furniture and equipment over estimated useful lives ranging from three to seven years using the straight-line method of depreciation.

Investments - Investments consist of mutual funds, annuities, and a hedge fund, which are carried at fair value. Donor-restricted endowment funds are classified as long-term investments in the statements of financial position.

Revenue Recognition - Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Unconditional promises to give (pledges) are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met.

Income Taxes - The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is not classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe the Foundation has any uncertain tax positions. The Foundation files informational returns. Generally, these returns are subject to examination by income tax authorities for three years from the filing of a return. The Foundation has not paid any interest or penalties related to its income tax positions, and there are currently no audits for any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

Functional Allocation of Expenses - Salaries and related expenses are allocated based on estimates of time spent on programs. Other expenses, not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

2. Concentrations

One grantor accounted for approximately 90 and 95 percent of total grant revenues during the years ended December 31, 2016 and 2015, respectively.

3. Grants Receivable

The Foundation had unconditional promises to give representing the following at December 31:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 328,000	\$ 70,000
One to five years	<u>52,000</u>	<u>-</u>
	<u><u>\$ 380,000</u></u>	<u><u>\$ 70,000</u></u>

Management has elected not to calculate any discount to present value on grants receivable due beyond one year as such amount would not be significant.

4. Investment Return

Investment return consists of the following:

	2016	2015
Interest and dividends	\$ 208,814	\$ 213,327
Net realized and unrealized gain (loss)	533,954	(266,861)
Investment management fees	<u>(50,549)</u>	<u>(42,437)</u>
Net investment return	<u><u>\$ 692,219</u></u>	<u><u>\$ (95,971)</u></u>

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

5. Fair Value Measurements

The classification of assets and liabilities within the fair value hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The three levels of the fair value hierarchy and the valuation methodologies used for assets are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair value is based on significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis at December 31:

2016	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity	\$ 2,292,767	\$ -	\$ -	\$ 2,292,767
International equity	2,147,685	-	-	2,147,685
Fixed income	5,770,721	-	-	5,770,721
Annuities	-	772,044	-	772,044
Hedge fund	-	-	666,670	666,670
	<u>\$ 10,211,173</u>	<u>\$ 772,044</u>	<u>\$ 666,670</u>	<u>\$ 11,649,887</u>

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

5. Fair Value Measurements - Continued

2015	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic equity	\$ 1,662,884	\$ -	\$ -	\$ 1,662,884
International equity	4,039,970	-	-	4,039,970
Fixed income	4,286,924	-	-	4,286,924
Annuities	-	921,885	-	921,885
Hedge fund	-	-	595,642	595,642
	<u>\$ 9,989,778</u>	<u>\$ 921,885</u>	<u>\$ 595,642</u>	<u>\$ 11,507,305</u>

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds: Valued at the net asset value of shares held by the Foundation at year end, and are classified as Level 1.

Annuities: Recorded at fair value provided primarily by the insurance companies based on pricing models that incorporate available trade, bid and other market information.

Hedge fund: Valued at net asset value of shares held by the Foundation at year end. The underlying investments of the hedge fund are measured by management of the hedge fund using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

A summary of the fair value measurements using unobservable inputs (Level 3) are as follows for the years ended December 31:

	2016	2015
Balance, beginning of year	\$ 595,642	\$ 649,957
Realized and unrealized gains	28,785	503
Purchases	50,000	-
Redemptions	-	(50,000)
Fees paid	(7,757)	(4,818)
Balance, end of year	<u>\$ 666,670</u>	<u>\$ 595,642</u>

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

6. Lease Commitments

At December 31, 2016, the Foundation had entered into operating agreements for certain office membership and facilities through January 2018. Subsequent to year end, the Foundation entered into an operating agreement for additional office space through February 2018. Total rent expense, was \$26,686 and \$58,993 for 2016 and 2015, respectively.

Future minimum lease payments under these agreements as of December 31 2016, inclusive of the lease for additional office space, are as follows:

Years Ending December 31,	Amount
2017	\$ 20,540
2018	<u>2,880</u>
	<u>\$ 23,420</u>

7. Grant Commitments

At December 31, 2016, the Foundation had committed \$60,000 for the funding of a certain Community Inspiration Program project to be granted through 2017. Because the Foundation's future underwriting of these projects is dependent upon certain conditions, no expense has been recorded for any amounts beyond the amounts that have been authorized and awarded as of December 31, 2016, by the Board of Directors.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2016	2015
Time restriction	\$ -	\$ 70,000
Purpose restriction	909,160	334,646
Unappropriated endowment earnings (<i>Note 9</i>)	<u>1,475,304</u>	<u>1,201,183</u>
	<u>\$ 2,384,464</u>	<u>\$ 1,605,829</u>

Net assets of \$439,561 and \$926,521 were released from donor restrictions during 2016 and 2015, respectively, by incurring expenses satisfying restricted purposes or by the passage of time.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

9. Endowment and Permanently Restricted Net Assets

Net assets of the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the state's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Donor-restricted endowment funds are pooled with overall investments of the Foundation and are subject to the investment policies of the Foundation with an overall goal of long-term capital appreciation with preservation of capital. The strategy of the Foundation is to maintain a balanced, diversified portfolio with specific asset allocation targets. To manage risk, the investment policy also limits the types of investments the Foundation can hold.

The Foundation has adopted a spending policy, which allows management to appropriate 5 percent of the average market value of the endowment investments as of year end for the previous three years.

Endowment net asset composition by type of fund is as follows as of December 31:

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,475,304</u>	<u>\$ 4,000,000</u>	<u>\$ 5,475,304</u>
2015				
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,201,183</u>	<u>\$ 4,000,000</u>	<u>\$ 5,201,183</u>

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Notes to Financial Statements - Continued

9. Endowment and Permanently Restricted Net Assets - Continued

Changes in endowment net assets for the years ended December 31, 2016 and 2015, are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	\$ 1,218,452	\$ 4,000,000	\$ 5,218,452
Investment return:			
Realized income	101,280	-	101,280
Unrealized loss	<u>(118,549)</u>	<u>-</u>	<u>(118,549)</u>
Net investment loss	<u>(17,269)</u>	<u>-</u>	<u>(17,269)</u>
Endowment net assets, December 31, 2015	1,201,183	4,000,000	5,201,183
Investment return:			
Realized income	159,091	-	159,091
Unrealized gain	<u>115,030</u>	<u>-</u>	<u>115,030</u>
Net investment gain	<u>274,121</u>	<u>-</u>	<u>274,121</u>
Endowment net assets, December 31, 2016	<u>\$ 1,475,304</u>	<u>\$ 4,000,000</u>	<u>\$ 5,475,304</u>

10. Subsequent Events

Management has evaluated subsequent events through March 31, 2017, the date the financial statements were available for issue.

Subsequent to December 31, 2016, the Foundation was awarded a \$30,000 grant. No amounts related to this contribution have been reflected on the financial statements at December 31, 2016.

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Supplementary Financial Information

Independent Auditors' Report on Supplementary Financial Information

The Board of Directors
Native Arts and Cultures Foundation, Inc.

We have audited the financial statements of the Native Arts and Cultures Foundation, Inc. as of and for the years ended December 31, 2016 and 2015, and our report thereon dated March 31, 2017, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoffman, Stewart & Schmidt, P.C.

March 31, 2017

NATIVE ARTS AND CULTURES FOUNDATION, INC.

Schedules of Expenses

Years Ended December 31,	2016	2015
Grant making programs	\$ 546,513	\$ 728,683
Salaries and wages	568,405	713,366
Payroll taxes and benefits	92,594	119,363
Office and operations	99,260	164,699
Professional contracts	2,394	57,382
Communications and external relations	23,592	83,677
Travel	109,008	138,751
Equipment	1,962	1,298
Depreciation	-	35,396
Total expenses	<u>\$ 1,443,728</u>	<u>\$ 2,042,615</u>